Carbon Market Watch recommendations to Article 6 negotiators for SB 58

This note presents Carbon Market Watch's recommendations on selected topics in Article 6.2 (plus one in 6.4) ahead of the UNFCCC's 58th session of the subsidiary bodies from 5-15 June 2023. The recommendations are summarised in the box, and elaborated in the note.

Summary

Sequencing and timing

- A step-wise process consisting of clearly separated, consecutive, procedural steps is needed to ensure TACCC principles are being met.
- Review of the initial report should be a prerequisite for all subsequent steps. No ITMOs should be issued/traded/used until the review is complete and related recommendations have been addressed.

Inconsistencies and implications of non-responsiveness

- Without a requirement for Parties to address reviewers' recommendations, the review process as it currently stands is inadequate.
- Inconsistencies found in a review should have consequences: until these are addressed, Parties should not be able to proceed with their cooperative approach. Systematically ignoring review recommendations should have graver consequences, such as halting the use/future issuance of ITMOs.
- Inconsistencies that reveal double counting, over-issuance, or a general lack of environmental or social integrity, should result in corrective measures to cancel, and where necessary replace, ITMOs.

Modalities for reviewing confidential information

- Designating information as confidential will undermine trust in the cooperative approach concerned and Article 6.2 more widely.
- A justification should always be provided to the review team if information is designated as confidential.
- For the bare minimum of transparency, SBSTA should consider a drop-down list of justification categories to be disclosed on the CARP.

Host Party authorisation statement to Supervisory Body

- Authorisation statements should be comprehensive (see list in below section) and should be provided before issuance, ideally upon or prior to registration.
- Authorisation after issuance can lead to reporting errors and serious problems such as double counting.

Revisions to authorisation

- Changes to authorisation can impact consistency of reporting and the application of corresponding adjustments, potentially resulting in double counting. Parties should further discuss these implications and possible solutions (if any), while always prioritising environmental integrity.
- We do not support revisions to authorisation, unless double counting can be definitively ruled out.

Draft agreed electronic format

- The final Agreed Electronic Format should provide clear and accessible information for all stakeholders. The current draft AEF is missing some relevant information columns, e.g. regarding OMGE and SOP.
- Unique identifiers should be used where appropriate to ensure consistency and comparability across rows, columns, and/or possible subtables.

Article 5 vs Article 6.2

- Article 5 and the Warsaw Framework are not carbon market mechanisms and are not automatically compatible with either Article 6.2 or 6.4.

Sequencing and timing (Decision 6/CMA.4, cover decision, Paragraph 17a)

On the sequencing and timing of the submission of the initial report, we would align with the views expressed by several Parties that a step-wise approach is needed in which the initial report is reviewed before any authorisation, issuance, trade or use of ITMOs occurs. Only after the review is completed – and after any potential recommendations from the review team are satisfactorily addressed – should Parties be able to continue with the subsequent authorisation, reporting and issuance processes for their ITMOs. A sequencing approach with clearly separated, consecutive procedural steps is necessary to ensure TACCC principles (Transparency, Accuracy, Completeness, Comparability, Consistency) are being met.

Despite the fact that the substance and scope of the review team was much watered down at COP27, to the dismay of Carbon Market Watch and other observers, the review process is the only formal third-party verification of Parties' proposed cooperative approaches and related ITMOs. As such, the review of the initial report must be a prerequisite for all subsequent steps. Requiring the review process to take place first – prior to authorisation, issuance, and transfer of ITMOs (and subsequent reporting of annual and regular information) – will also help ensure that the host Party and acquiring Party (or entities) will be aware of any potential discrepancies or other shortcomings indicated by the review process, and thus can proceed with full transparency and knowledge.

Inconsistencies and implications of non-responsiveness (Decision 6/CMA.4, cover decision, Paragraph 16aiii)

As it stands now, the review process is insufficient to ensure that inconsistencies are addressed: if a review does not have any consequences, especially in case of serious discrepancies, then the question arises whether the review actually functions as a quality control mechanism. Without such a mechanism, the credibility of the cooperative approach in question and the 6.2 market in general will be undermined. It is therefore crucial for SBSTA to propose recommendations that would correct the current context where Parties appear to face no obligation to address the review team's recommendations.

If the review team and secretariat identify inconsistencies during the review process and consistency check and thus make recommendations to the Party(ies) in question, there should be a requirement for Parties to resolve any and all inconsistencies or areas of confusion. It should not be optional for Parties to address these recommendations. Satisfactorily addressing review recommendations should be a requirement in the stepwise process of 6.2, and one without which the cooperative approach cannot proceed.

Moreover, the initial report should only get the green light for its finalisation and publication once this requirement is met.

In case review recommendations are systematically ignored by Parties, there should be consequences that are adjusted accordingly. For example, one consequence could be to halt the use of existing ITMOs, and/or to halt the future issuance of ITMOs, from the cooperative approach in question, until the review team's recommendations have been satisfactorily addressed. Depending on the nature of the inconsistency (e.g. minor or major), rather than only the cooperative approach in question being suspended, other cooperative approaches in which the Party is involved could also be required to pause issuance or trade until the inconsistencies are resolved. If such inconsistencies continue and the Party repeatedly refuses to address the review team's recommendations, the consequences of such non-responsiveness could be escalated so that no new cooperative approach involving the Party can proceed until the recommendations are appropriately addressed.

In case the review finds inconsistencies that reveal double-counting or over-issuance of ITMOs, the Party involved should be required to make up for the increased GHG emissions that result from the double-counted/over-issued ITMOs (please see pp.4-5 of CMW's previous SBSTA submission for further details on how to operationalise such options).

Moreover, in case inconsistencies are found that call into question the environmental integrity of the cooperative approach and/or specific ITMOs then the issued ITMOs should be required to be forwarded to a dedicated holding account where they cannot be further forwarded/transferred to another account or used towards NDC/OIMP until the questions regarding the environmental integrity are resolved – if these questions cannot be resolved or if it is determined the ITMOs do not uphold environmental integrity, the ITMOs should be cancelled accordingly.

Modalities for reviewing confidential information (Decision 6/CMA.4, cover decision, Paragraph 16aii)

We would begin by expressing our strong disapproval of the weak and open-ended provisions on confidentiality in Decision6/CMA.4. SBSTA, in its work to develop recommendations on paragraph 16aii of Decision6/CMA.4, should propose further modalities to frame confidentiality in such a way that confidential information is limited to the strict minimum. If Parties decide to designate as confidential either their full cooperative approaches, or key details regarding specific proposed activities and ITMOs,

without the need to justify it, this will undermine transparency and the legitimacy of said ITMOs since it will be impossible for observers and the wider public to verify their integrity.

While not enough to limit confidentiality in itself, the review process can to some extent improve the accountability of Parties choosing to designate their cooperative approach as confidential. SBSTA should ensure the technical expert review team can request Parties to justify why they have designated information as confidential in the event Parties decide to do so without providing a justification (Article 6.2 decision at COP27, annex ii, para 22). Moreover, reviewers should be permitted to assess whether the justification for designation of information as confidential is acceptable and to make related recommendations as relevant.

While the underlying confidential information cannot be made publicly available on the centralised account and reporting platform (CARP), at a minimum, the justifications for designating information as confidential should be disclosed: while we and other observers would prefer a full disclosure of the justification, a more practical and workable solution may be for SBSTA to designate justification categories from a drop down list, that could also be further complemented with additional text. These justification options could be sufficiently high-level to not breach confidentiality requirements, all while providing a minimum of information to the public domain. If SBSTA were to develop such options at SB58, we would encourage SBSTA to invite observers to give feedback on these between SB58 and CMA5.

Transparency of cooperative approaches and related ITMOs is vital to ensure there is a minimum level of trust in Article 6.2. Having nothing to hide will strengthen confidence in the approach from other Parties and prospective users of ITMOs, while also allowing civil society, journalists and the wider public to play a key role in independently reviewing the approaches rather than speculating about their content. Parties that decide to designate information as confidential will undermine trust in the 6.2 mechanism more widely than the cooperative approach in question, especially if they refuse to provide a justification of the reason that would be made available on the CARP. Should information nevertheless be deemed confidential, sharing a justification with the review team is the bare minimum that Parties must do.

Authorisation statement (Decision 7/CMA.4, cover decision, Paragraph 9c)

A host Party's statement authorising A6.4ERs for NDC or OIMP use is a decisive step; this is crucial not only for buyers and for host Parties to know how the emissions

reductions/removals can be used but also to ensure sound accounting and application of corresponding adjustments.

Therefore, this statement should certainly be provided prior to issuance, and ideally upon or prior to registration of the activity. It should compulsorily contain all relevant information pertaining to the authorisation including, but not limited to:

- Date of the statement as well as name of host Party and entity responsible for the statement;
- Details of A6.4 activity and proponent: name of activity, sector, estimated average annual emission reductions/removals, annual volume of A6.4ERs that are being authorised for each year, name and contact details of proponent;
- Use case of authorisation:
    - for NDC use: specification of total authorised A6.4ERs as well as further information where relevant, such as acquiring Party and related cooperative approach;
    - for OIMP use: specification of total authorised A6.4ERs and possible specifications or conditions, e.g. if authorised for IMP only or OP only;
- Definition of "first transfer", if authorised for OIMP;
- Further specifications or conditions: for example, if partial authorisation will be applied or if host Party requires OMGE and SOP rates that go beyond the minimum 2% and 5% respectively required under Article 6.4.

Providing full information is essential to ensure clarity around the eligibility of the A6.4ERs for all stakeholders.

We strongly caution against the possibility of authorisation after A6.4ERs are issued. Allowing this risks undermining the integrity of the 6.4 mechanism. Since the definition of 'first transfer' is flexible for OIMP and can be interpreted differently by involved Parties, it may lead to accounting mismatches where A6.4ERs are not correspondingly adjusted for when authorised after issuance, meaning they are double counted. Aside from the implications of the authorisation statement timing for double counting, it also has consequences for transparent reporting, because authorising A6.4ERs post-issuance will mean that the related reporting will also have to occur ex-post and/or imply retroactive changes to previous reporting.

In addition to the timing of the authorisation statement, revisions to the statement can similarly cause serious issues for the functioning of the 6.4 mechanism as a whole (see next section). Revising an authorisation statement not only poses the same double counting risk

and reporting challenges as inappropriate timing of the authorisation statement, but it will also lead to uncertainty for anyone involved or looking to be involved in the 6.4 market. Therefore, we urge any SBSTA recommendation on the authorisation of A6.4ERs, including the statement and any possible revisions to the statement, to require this to occur prior to issuance of A6.4ERs and ideally before or upon registration of the activity.

Revisions to authorisation (Decision 6/CMA.4, cover decision, Paragraph 17b)

In line with positions expressed by several Parties, we think clarity around the authorisation process is crucial.

We urge Parties at SBSTA to be mindful of the risks involved with revisions to authorisation on consistency of reporting and application of corresponding adjustments. Parties should discuss what solutions, if any, may exist to resolve the issues that might accompany changes to authorisation, but we stress that environmental integrity and accurate reporting should be the priority in any possible SBSTA recommendation on this topic.

We do not support revisions to authorisation for the time being, unless perhaps it can be guaranteed that double counting will not occur. Revisions to authorisation could create mismatches where corresponding adjustments are not applied, which would unacceptably lead to double counting of ITMOs. We see value in Parties exploring this topic further at SBSTA, but we also recognise the non-negligible risks posed by revisions to authorisation and reiterate that double counting cannot be allowed.

Draft agreed electronic format (Decision 6/CMA.4, cover decision, Paragraph 4)

The final version of the Agreed Electronic Format should ultimately provide clear and accessible information for all stakeholders; whether these are Parties involved in the cooperative approach, other Parties, members of the technical expert review team or outside observers. This can take the form of a single table or, as proposed by some Parties, a collection of subtables that feed into a central table. In either case, the AEF should reflect all information relevant to the ITMOs.

Currently, the draft AEF is also missing certain components that should be reflected in reporting, such as a column/subtable for both the OMGE and SOP percentages.

We would also strongly recommend the use of unique identifiers for the AEF wherever applicable, as these will make it possible to link information across rows, columns or subtables, and also make it easier to identify potential reporting errors.

Article 5 vs Article 6.2

Article 5 and the Warsaw framework for REDD+ have a role to play in climate change mitigation and nature conservation. Such activities are in dire need of finance. But these systems are not carbon market mechanisms and should not be treated as such. Article 5 and Article 6.2 (and 6.4) do not serve the same purpose and should not be equated as compatible. Article 5 and the Warsaw framework are not carbon market mechanisms, do not issue units and do not have the criteria in place to function as such, meaning that activities and outcomes under Article 5 are by no means automatically eligible under Article 6.2.

In addition, any Party engaging in Article 6.2, must ensure its cooperative approach and related ITMOs satisfy all requirements in place for Article 6.2 regardless of whichever previous requirements the activity may have been subject to beforehand. This means all activities must be subject to the review process and uphold environmental integrity and additionality, minimise non-permanence and address reversals across NDC periods, and more, without exception.

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